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FOLLOWING REPEAT PARIS 20100 ACTION

SECSTATE 22 AUGUST 1974. QUOTE:

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E.O. 11652: N/A

TAGS: EFOM, ETRD, OECD, FR

SUBJECT: FRENCH CREDIT MEASURES TO PROMOTE EXPORTS

REFS: A. PARIS A-395; B. PARIS 7430; C. PARIS 7067;

D. PARIS 17863; E. USOECD 18001; F. USOECD 18789

1. FRENCH CREDIT MEASURES TO PROMOTE PRODUCTION FOR EXPORT HAVE COME TO ATTENTION OF INTERNATIONAL PRESS. PURPOSE OF THIS MESSAGE IS TO GIVE BRIEF DESCRIPTION OF MEASURES, THEIR ORIGINS AND INTENT, AND CURRENT STATE OF PLAY. BACKGROUND MATERIAL IN REFERENCED MESSAGES.

2. THE PROGRAM. A TOTAL OF FOUR BILLION FRANCS WILL BE MADE AVAILABLE FOR PLANT AND EQUIPMENT LOANS TO FRENCH FIRMS, PARTICULARLY SMALLER ONES HAVING PROBLEMS WITH ACCESS TO PARIS FINANCIAL MARKETS. EACH LOAN WILL BE AN EQUAL MIXTURE OF MEDIUM-TERM (UP TO SEVEN YEARS) COMMERCIAL BANK CREDITS, WHICH WILL BE EXEMPT FROM MANDATORY

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RESERVE OBLIGATIONS AND CREDIT CEILINGS, AND LONG-TERM

CREDITS FROM STATE-CONTROLLED BANKING INSTITUTIONS (CREDIT NATIONAL, CAISSE CENTRALE DE CREDIT HOTELIER, COMMERCIAL ET INDUSTRIEL, REGIONAL DEVELOPMENT CORPORATIONS) WHICH WILL OBTAIN FUNDS THROUGH FOREIGN BORROWING. LOANS ARE NORMALLY LIMITED TO L5 MILLION FRANCS AND 70 PERCENT OF TOTAL VALUE OF THE INVESTMENT FINANCED, NET OF TAXES. CONDITIONS OF LOANS ARE THAT THEY ARE TO BE USED TO INCREASE PRODUCTIVE CAPACITY, AND THAT RECIPIENTS MUST INCREASE PROPORTION OF TOTAL TURNOVER DERIVED FROM EXPORTS BY FIVE PERCENTAGE POINTS OVER PREVIOUS ACCOUNTING YEAR BY END OF THIRD ACCOUNTING YEAR FOLLOWING LOAN (I.E., IF LOAN MADE 1974, FIRM MUST INCREASE PROPORTION OF EXPORTS BY 5 PERCENT OF 1973 FIGURE BY 1977). PENALTIES WILL BE LEVIED FOR NON-COMPLIANCE, AS IN OTHER INCENTIVE PROGRAMS. INTEREST RATES ON PORTION OF LOANS DERIVED FROM FOREIGN BORROWING OF STATE-CONTROLLED BANKS WILL BE AT RATES FUNDS OBTAINED AT, MINUS A SUBSIDY OF 0.75 PERCENT -- COMMERCIAL BANK PORTION OF LOAN WILL BE AT CURRENT RATES FOR MEDIUM-TERM EQUIPMENT LOANS.

3. HISTORY AND MOTIVATION. MEASURES WERE FIRST ANNOUNCED BY THEN FINANCE MINISTER GISCARD D'ESTAING ON MARCH 20, AT WHICH TIME STRESS WAS PUT ON FAVORABLE B/P EFFECT OF BORROWING AND FACT THAT '8,;3 5.3,5 ?3,3-FITTING THEREFROM WILL BE THOSE WHICH ARE LIKELY TO CONTRIBUTE TO THE RESTORATION OF OUR EXTERNAL BALANCE." A JULY 16 PRESS RELEASE STATED "THE PURPOSE OF THIS PROGRAM IS TO MEET THE FINANCING NEEDS OF FIRMS WHICH EXPAND THEIR PRODUCTIVE CAPACITIES IN FRANCE SO AS TO INCREASE SIGNIFICANTLY THE VOLUME OF THEIR SALES IN FOREIGN MARKETS." THE MEASURES WERE INCLUDED IN SUPPLEMENTARY FINANCE LAW SIGNED THAT DAY. PART II, ARTICLE 12 OF LAW, PROVIDING FOR THE FOREIGN LOANS, SPECIFIES "A COUNTERPART IN FRANCS OF THESE LOANS WILL BE USED FOR LOANS TO FRENCH COMPANIES WHICH MAKE INVESTMENTS CAPABLE OF IMPROVING THE BALANCE OF PAYMENTS." WHEN THESE MEASURES WERE BROUGHT TO ATTENTION OECD COUNCIL BY SECRETARY-GENERAL JULY 23 (REFTEL E), FRANCE OPPOSED CONSIDERATION ON GROUNDS THAT PROGRAM "AN INTEGRAL PART LIMITED OFFICIAL USE

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OF THE CREDIT POLICY LAID DOWN BY THE GOVERNMENT" CONSISTING OF "INTERNAL POLICY MEASURES AIMED AT DEVELOPING INVESTMENT BY FRENCH ENTERPRISES AND NOT TRADE POLICY CONSTITUTING AN AID TO EXPORTS." ECONOMICS MINISTER FOURCADE PRESENTED ESSENTIALLY SAME APPROACH IN TELEVISION INTERVIEW EVENING BEFORE (REFTEL D), AND EXPRESSLY REFERRED TO GOF'S ADHERENCE TO OECD MINISTERIAL DECLARATION OF MAY 30, WHICH INCLUDES PLEDGE NOT TO TAKE

ARTIFICIAL EXPORT STIMULATION MEASURES. EMBASSY NOTES THAT THERE IS NO EVIDENCE THAT POLICIES WERE EVER PRESENTED IN CONTEXT OF CREDIT POLICY BEFORE FOURCADE'S ADDRESS, BUT RATHER, AS PARA 2 NOTES, HAVE BEEN CONSISTENTLY PRESENTED IN TERMS OF OBJECTIVE OF IMPROVING EXTERNAL PAYMENTS SITUATION.

4. STATE OF PLAY. AS NOTED REFTEL F, U.K. DELEGATE RAISED QUESTION AGAIN AT AUG 1 OECD COUNCIL MEETING, SUGGESTING THAT ANY MEASURES WHICH WERE POTENTIALLY NOT IN CCORD WITH PLEDGE SHOULD BE EXAMINED BY WORKING PARTY OF OECD TRADE COMMITTEE. AS IN JULY 23 MEETING, NO OTHER MEMBERS SHOWED ANY INTEREST. IN VIEW OF THIS, U.S. DELEGATION, WHICH HAD SUPPORTED U.K. JULY 23, DID NOT COMMENT AUG 1. FRENCH DELEGATION PROMISED TO REPORT BACK TO GOF AND INFORM COUNCIL. THIS IS WHERE MATTER NOW STANDS.

5. COMMENT. FRENCH CREDIT MEASURES WOULD SEEM TO BE DESIGNED TO "STIMULATE EXPORTS ARTIFICIALLY," ALTHOUGH THEIR IMPACT IS NOT LIKELY TO BE FELT SIGNIFICANTLY WITHIN ONE-YEAR PERIOD OF PLEDGE. FRENCH MAY ALSO POINT OUT THAT MEASURES WERE FIRST ANNOUNCED IN MARCH, PRIOR TO ADOPTION OF TRADE PLEDGE. USOECD CONTINUES TO HOLD VIEW THAT MATTER SHOULD BE EXPLORED FURTHER IN TRADE COMMITTEE WORKING PARTY, AS PROPOSED BY BRITISH, ALTHOUGH IT SHOULD BE BORNE IN MIND THAT BRITISH INITIATIVE WAS NOT SUPPORTED BY OTHER FRENCH TRADING PARTNERS. THIS ISSUE MAY BE RAISED AGAIN AFTER OECD COUNCIL RECONVENES IN MID-SEPTEMBER. MISSION AND EMBASSY WILL CONTINUE TO KEEP ABREAST OF QUESTION AND REPORT ANY NEW DEVELOPMENTS OR REFLECTIONS WE HAVE.

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